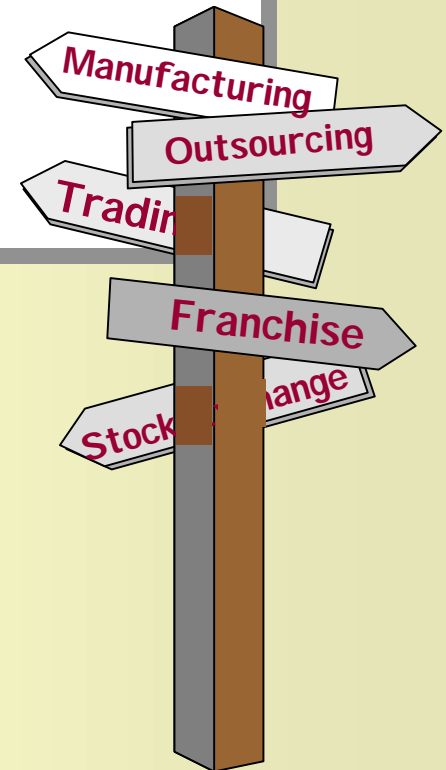


# EU-Businessland: HUNGARY

**Presentation for  
“The Expanding EU” Symposium  
December 9, 2003  
Salt Lake City, Utah**



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# Economic Achievements

high integration with the EU in terms of trade – compared to other acceding countries

heavy reliance on FDI as a driving force in the economy

gross output per employee grew 2.4 times since 1989

the Hungarian infrastructure remains the most developed in Central Europe

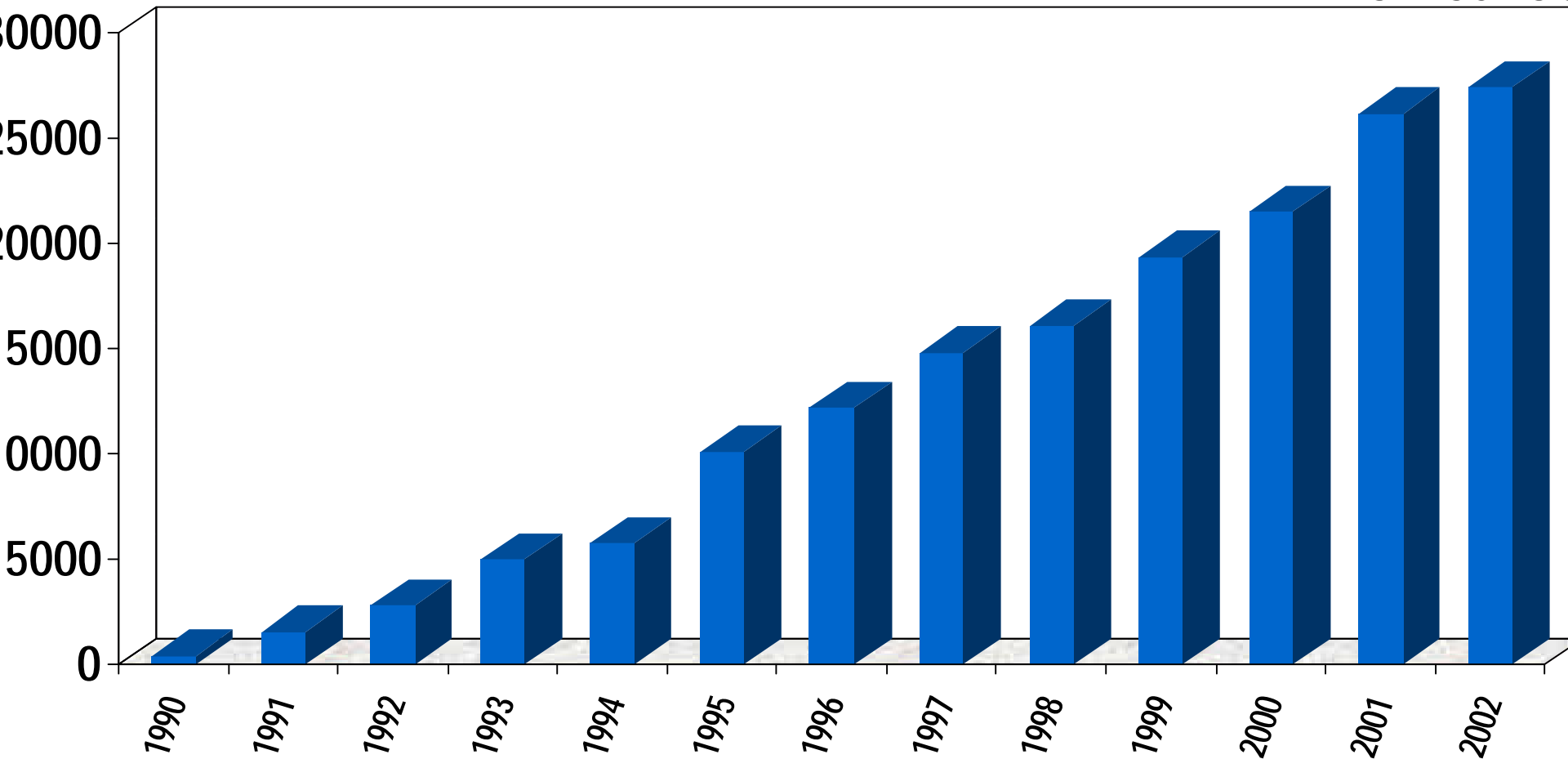
the legal framework conforms to the international / EU standards

the labour force provides a strong base for foreign business operations

# FDI Stock in Hungary

Plenty of opportunities for new investments

*in million euros*



Source: National Bank of Hungary

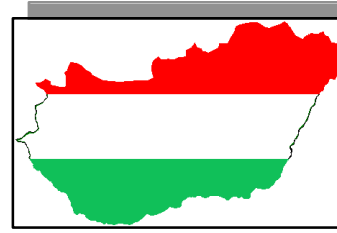
# Legal Stand of Foreign Business

**Act XXIV/1988 (Foreign Investment Act)**  
**Act CXLIV/1997 (Company Act)**

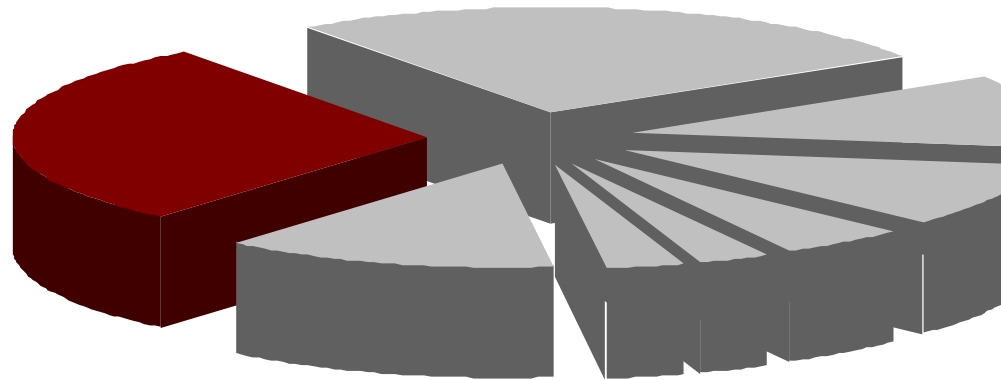


- Full protection and security
- All forms of business entities, incl. branch offices
- No legal limits of ownership, no special licensing
- Same rules apply as to Hungarian companies: banking, trading, accounting, social security contribution, corporate taxation, etc.
- Freedom to buy real estates (except arable land)
- Tax concessions and preferences
- Profits, dividends repatriation in hard currency
- Foreigners may own registered and bearer shares

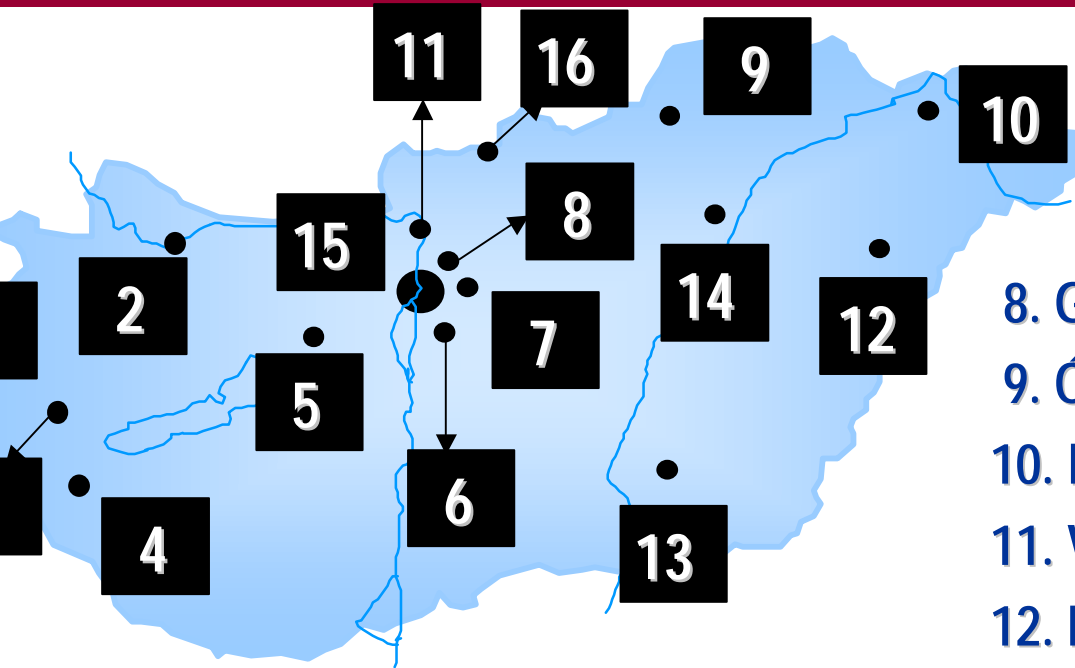
# U.S. Investments in Hungary



The amount of American investments in Hungary is around USD 8 billion, which is app. *30 percent* of the total foreign direct investments down to our country.



# Major U.S. Investors in Hungary



1. Szentgotthárd - General Motor

2. Győr - GE Hungary

3. Zalaegerszeg - GE Hungary

4. Nagykanizsa - GE Hungary

5. Székesfehérvár - Alcoa, Ford Motor Co.

6. Dunaharaszti - Coca-Cola

7. Veresegyház - GE Hungary

8. Gödöllo - Lear Corp.

9. Ózd - GE Hungary

10. Kisvárdá - GE Hungary

11. Vác - GE Hungary

12. Hajdúböszörmény - GE Hungary

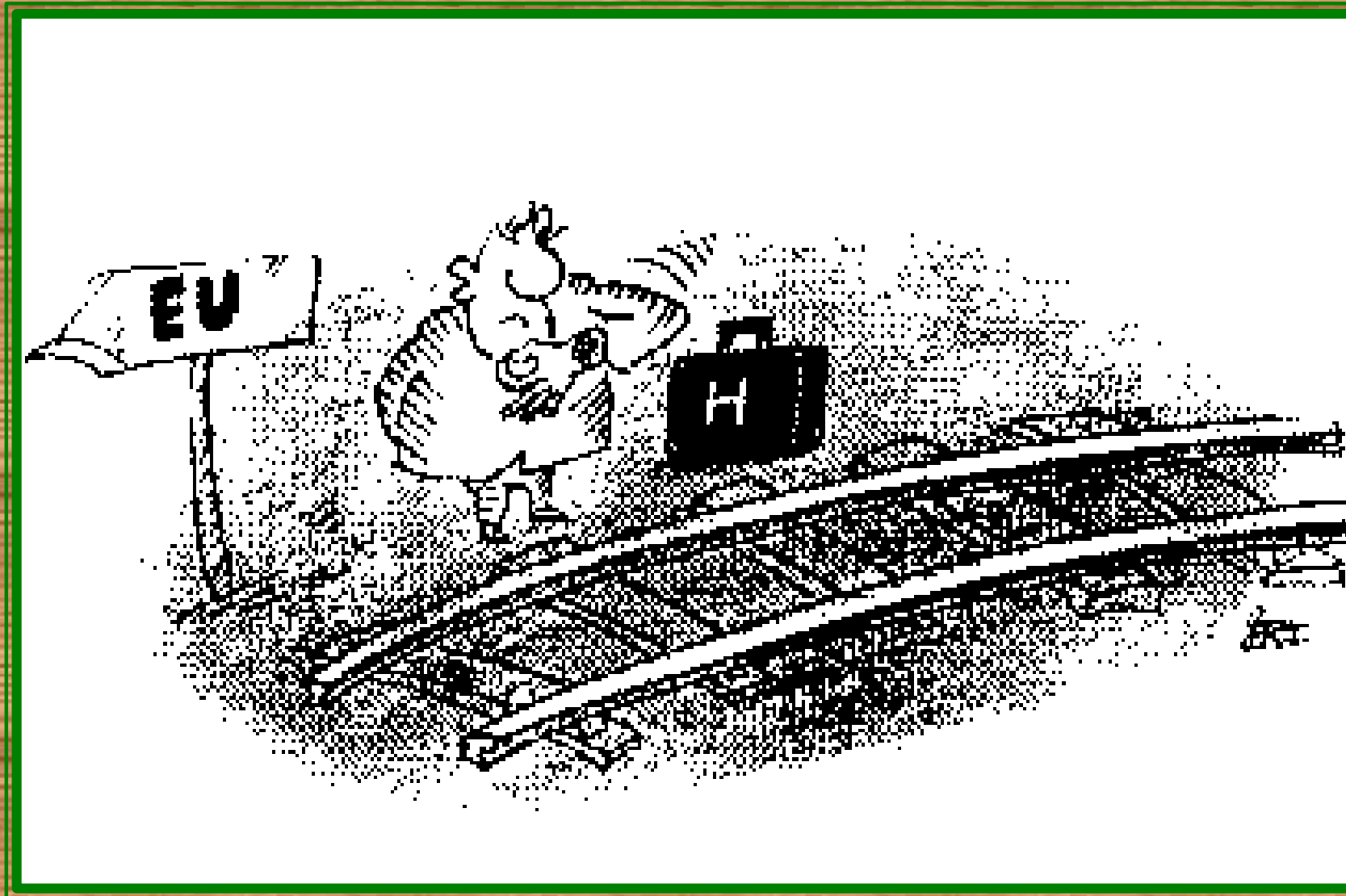
13. Orosháza - Guardian Glass

14. Tiszaújváros - AES

15. Budapest - GE Hungary, PepsiCo Inc., I  
Sara Lee, GE Capital, Hotel Marrio  
Philip Morris, etc.

16. Balassagyarmat - Delphi - Calsonic

**When? May 1, 2004 !**



# Why?



## The West

- ❖ **Peace and stability**
- ❖ **Larger market**
- ❖ **Less exchange rate volatility**
- ❖ **Labour market reform**
- ❖ **Institutional reform (EU)**

## Candidates



- ❖ **Political stability**
- ❖ **Economic growth**
- ❖ **Structural reform**
- ❖ **Trade integration**
- ❖ **Increased flow of FDI**
- ❖ **Lower interest rate**



# Hungary's main attractions for foreign businesses



pre-accession

post-accession



Political and economical stability	→	increasing
Advanced financial system	→	same, with EMU (2008 ?) increasing
Solid legal guarantees	→	better
Advanced ind. environment	→	cleaner, safer, more compatible
Infrastructure: advanced IT	→	better road, railway, water ways
Access to external markets	→	better
Innovative environment	→	same
Low corporate tax (18%)	→	Lower (16%)
Versatile preference system	→	reformed
High educational standards	→	same
Low labour costs relative to skill and productivity	→	gap decreasing

# Impacts of the EU Accession



growth in trade and investment, improved business climate

- Reduced administration and time connected to the movement of goods
  - ❖ Customs declaration need not be issued
  - ❖ Less stringent regulations concerning the payment of VAT
  - ❖ Customs clearance regarding exports to countries outside the EU will speed up due to modernisation
- No hold-up at borders within the extended European Union
- Lower transactional costs
- More ample choice for economic customs procedures operations, in some respects with more liberal regulations
- Simpler rules in the field of customs guarantees

# Impacts of the EU Accession



growth in trade and investment, improved business climate

- Improved efficiency and transparency of business
- Inflow of EU funds
- Cheaper financing as a result of better risk ratings and increasing competition in the financial sector
- Benefit from pan-European distribution strategies, development of transportation routes

# EU enlargement – May 1, 2004



## The accession of Hungary

- ✓ Hungary will adopt the EU's *acquis communautaire* on customs, which will result in an **average tariff level of 3.5% instead of the current 8.9%**.
  - ✓ **Tariffs on 5,500 products will decrease** and those on 1,700 products will increase, but U.S. goods will enjoy more favorable tariff rates for the most part.
  - ✓ From an **agricultural** standpoint, the trade impact of Hungary's EU membership in 2004 reveals that **tariffs will decrease for most U.S. exports**, including animal genetics, corn seed, dry beans, grapefruit, dried fruits and nuts, peanuts, and tobacco.
-

# **incentives Provided by the Hungarian Government**

## **incentives in Hungary have been EU compatible**

### **since January 2003**



**Untaxed development reserve**

**Gradual reduction of the itemised health care contribution**

**Development tax benefit**

**Tax allowance for R&D activity, innovation and adult training**

**The rate of corporate tax is the second lowest in the OECD**

#### **Direct subsidies**

**Support for European regional enterprise centres**

**Subsidy for competitive investments**

#### **Local tax allowance**

**Special treatment**

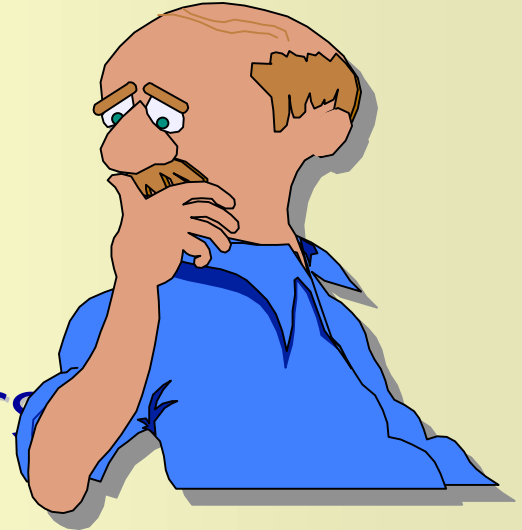


# Planned Changes in Taxes and Contributions from 2004

- Reduced corporate tax rate to 16%
- More favourable conditions for the development tax benefit:
  - ❖ min. value of investment decreases to USD 14 million (USD 4,5 million, in less developed regions)
  - ❖ job creation of 100 employees (50 in less developed regions)
  - ❖ no limit for investment value in case of job creation of 300 employees (150 in less developed regions), out of which 20% are career starters
  - ❖ granted for 10 years
  - ❖ in case of food hygienic investments, investment value of USD 425 000
- 25% of pre-tax profit can be used as tax-free investment reserve
- Tax base benefit also for medium-sized enterprises
- Loss made from 2004 can be written off for an unlimited period
- 50% of fixed financial assets and exchange rate gain paid in the form of local tax is deductible from the tax base

# Your Options....

- ✓ Staying away
- ✓ Outsourcing, subcontracting
- ✓ Logistics, SSC-s, Call Centers
- ✓ Setting up local manufacturing unit as greenfield or brownfield investment



# New Opportunities: Agriculture & Food Sector

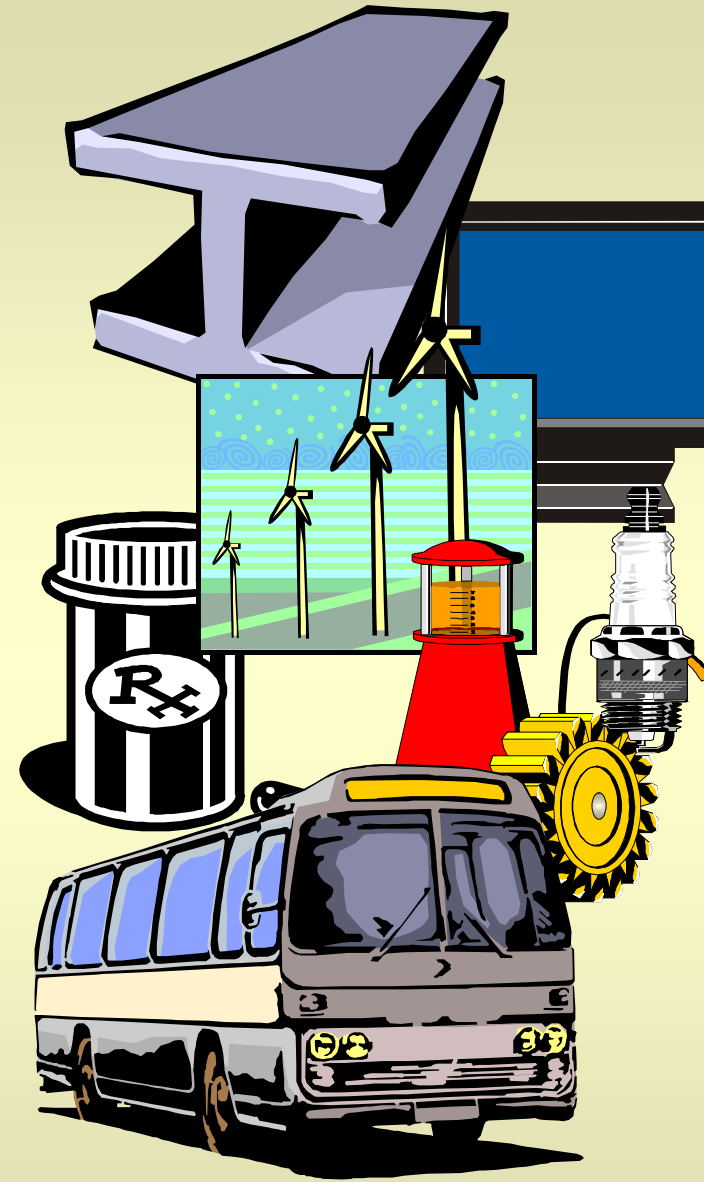
- Sectors to watch: arable crops (wheat, maize sunflower); fruit & veg; sheep breeding, poultry products, bio-farming
- Supported activities: introduction of new varieties, breeds; Land improvement, irrigation; Mechanisation; Infrastructure: transportation, warehousing, storage, cooling facilities; Eco-farming; Post-harvest facilities, preservation, grading, packaging, etc.





# New Opportunities: Industry

- Sectors to watch:
  - food processing
  - automotive parts
  - electronics
  - precision engineering
  - medical appliances
- Supported activities: industrial parks, SME development, regional development, supplier relationship, environmental protection



# New Opportunities: Services

## Sectors to watch:

- Telecommunication
- **Logistics**: warehouses, distribution centres
- E-Business, **Call Centres**, **SSC-s**
- Informatics services, softwares
- Innovation, **R&D**
- Communal services - waste management; housing, motorway construction
- Tourism



# ITDH personal assistance

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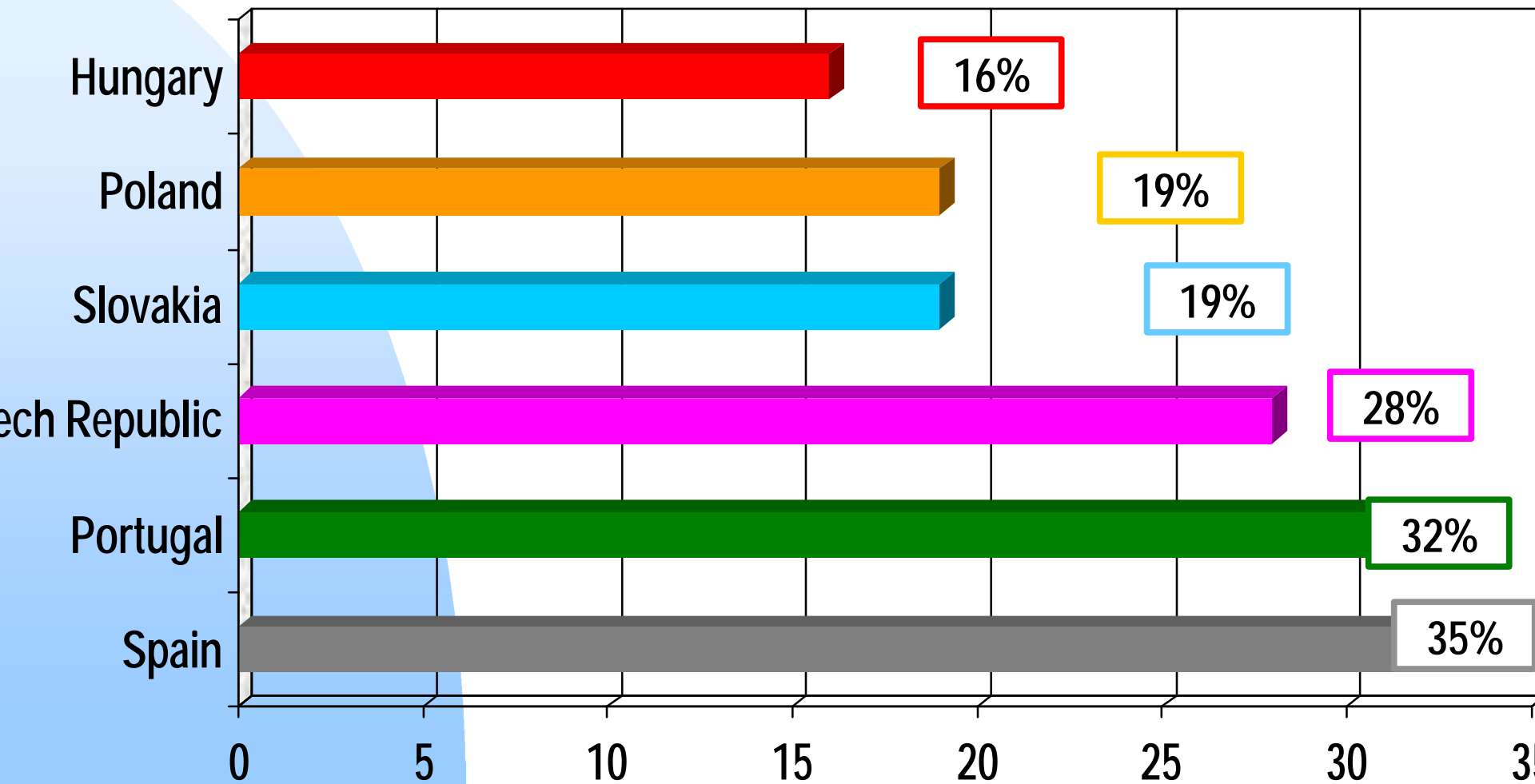
11 766 Wilshire Blvd., Ste # 410, Los Angeles, CA 90025, USA

***Thank you for your attention!***



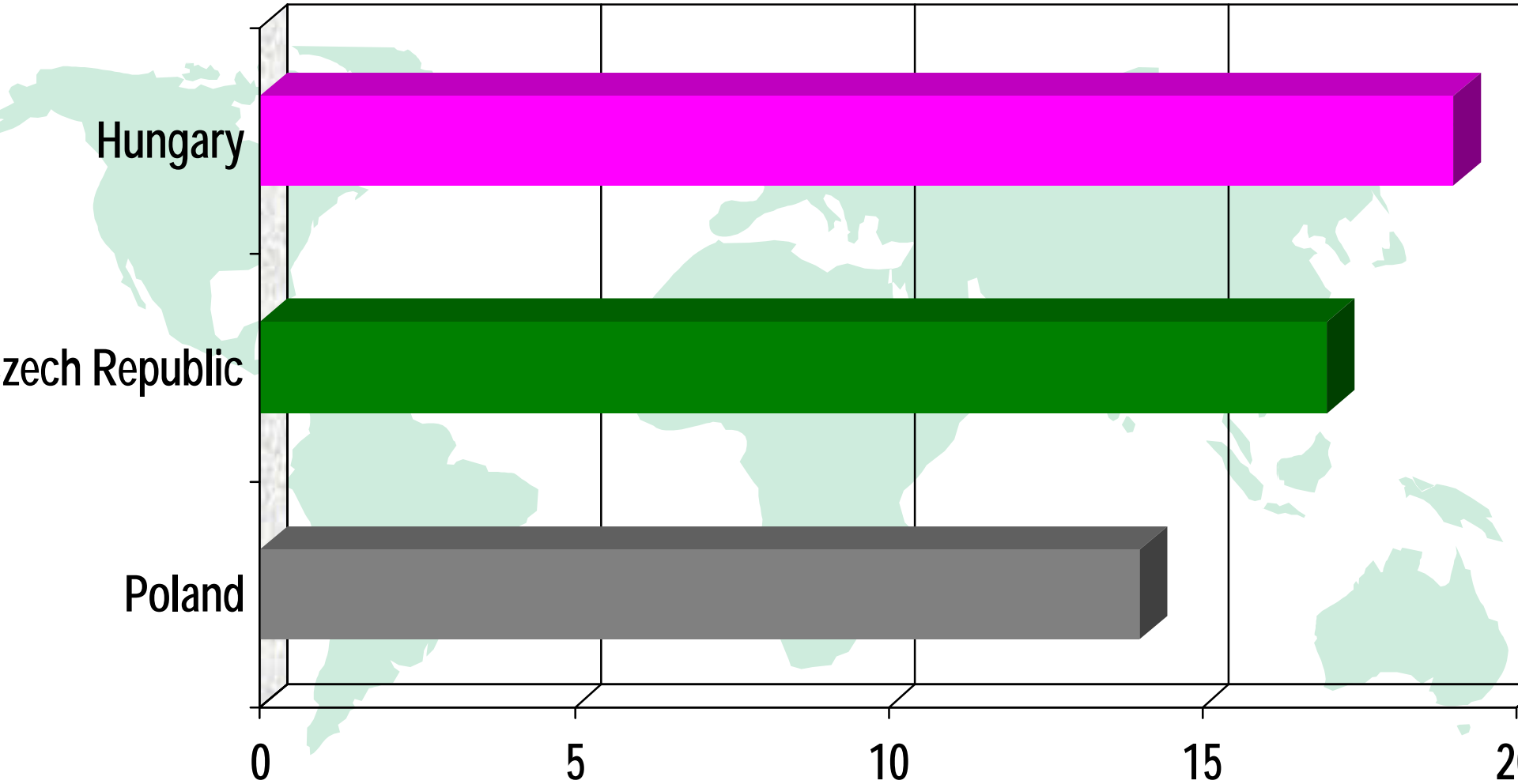
# Corporate Tax Rates, 2004

*In percentage*



# Productivity

*GDP per hour worked, 2002, \$*



Source: The Conference Board

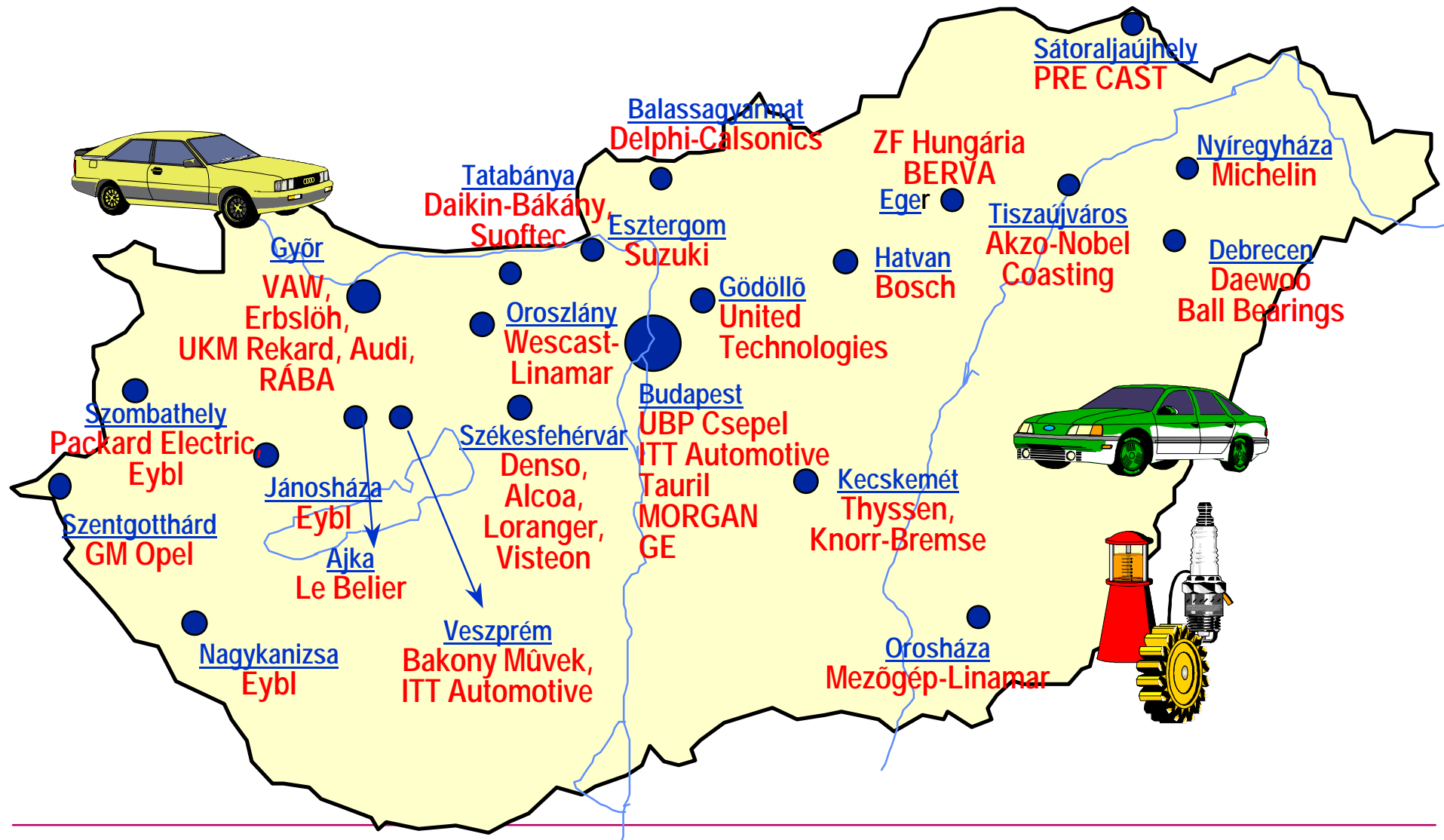
# Hungarian Macroeconomy in Figures

	1998	1999	2000	2001	2002
GDP (%)	4.9	4.2	5.2	3.8	3.3
Industrial production (%)	12.5	10.4	18.3	4.1	2.6
Exports (% - volume)	20.4	8.7	12.3	7.7	5.9
Imports (% - volume)	21.1	9.0	14.5	4.0	5.1
Trade balance*	-2.7	-2.9	-4.3	-3.6	-3.4
Balance of payments*	-2.0	-1.9	-1.4	-1.2	-2.8
FDI*	1.8	1.9	1.8	2.7	0.9
Inflation (%)	14.3	10.0	9.8	9.2	5.3
Unemployment rate (%)	7	6.5	6.4	5.7	5.8

million Euro

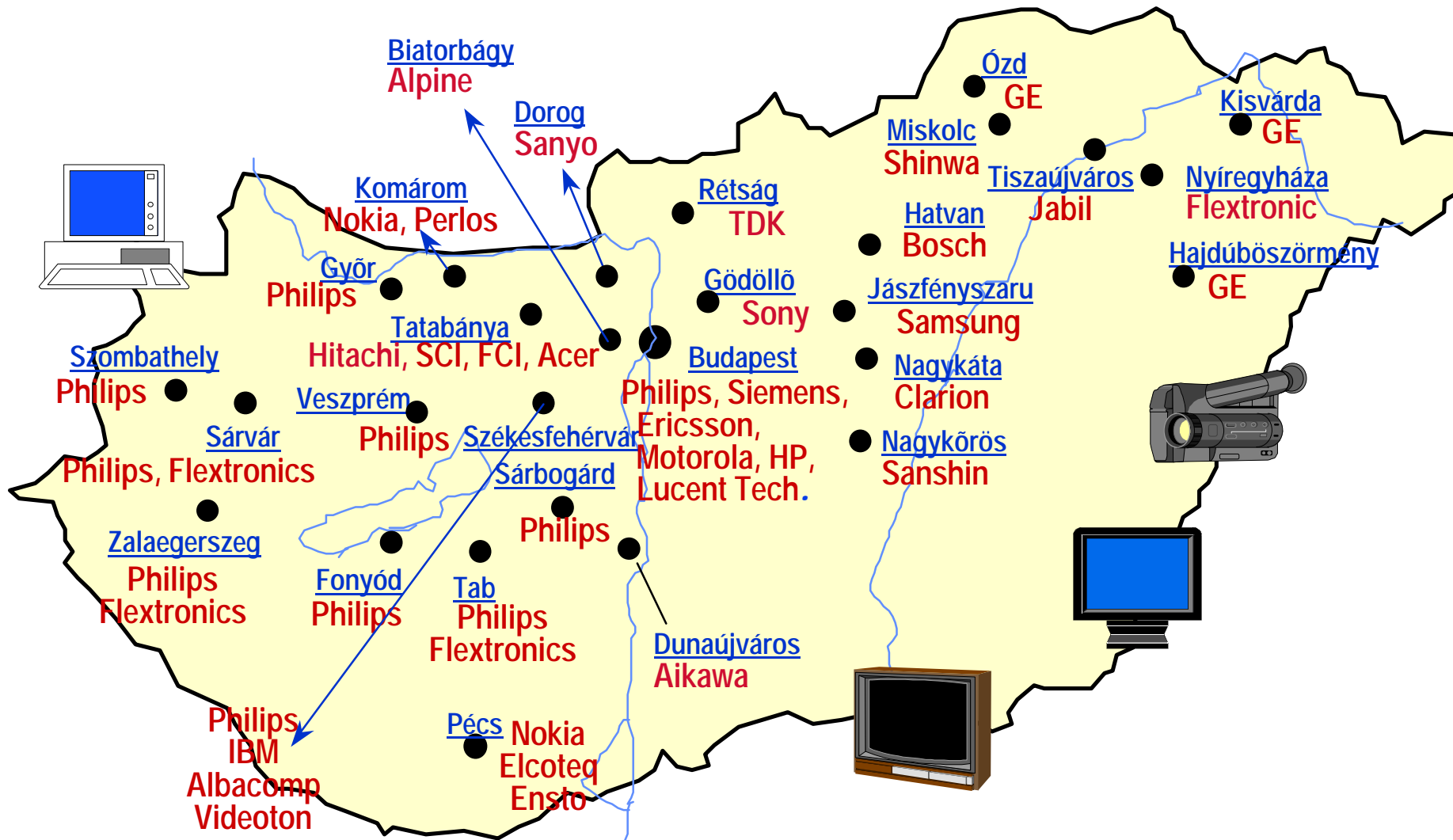
Source: Ministry of Economic Affairs, Hungarian Central Statistical Office

# Major Automotive Parts Manufacturers





# Major Electronic Component Manufacturers

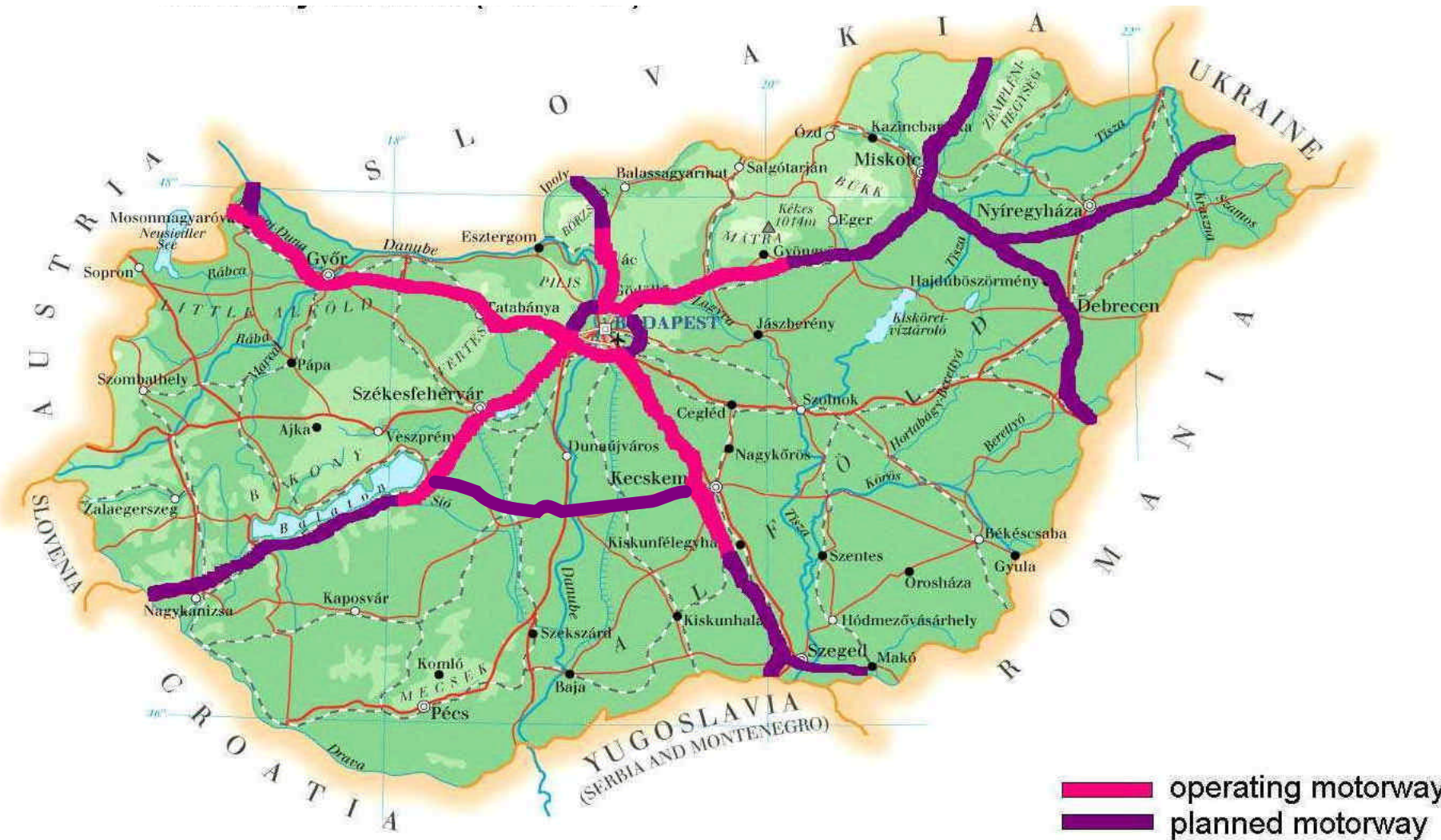


# The advantages of EU integration for companies operating in Hungary



- ➡ **Saves time and paperwork in customs administration when exporting to EU member states**
  - ➡ **No hold-up at border crossing into the whole of EU**
  - ➡ **Improved stability of administration**
  - ➡ **Transparent legal and tax system**
  - ➡ **No exchange risk and conversion charges after Hungary joins the Euro zone presumably in 2008**
  - ➡ **Less customs duty because of extensive EU bilateral trade agreements**
  - ➡ **Increased competitiveness (regarding existing EU member states) especially in labour intensive sectors**
-

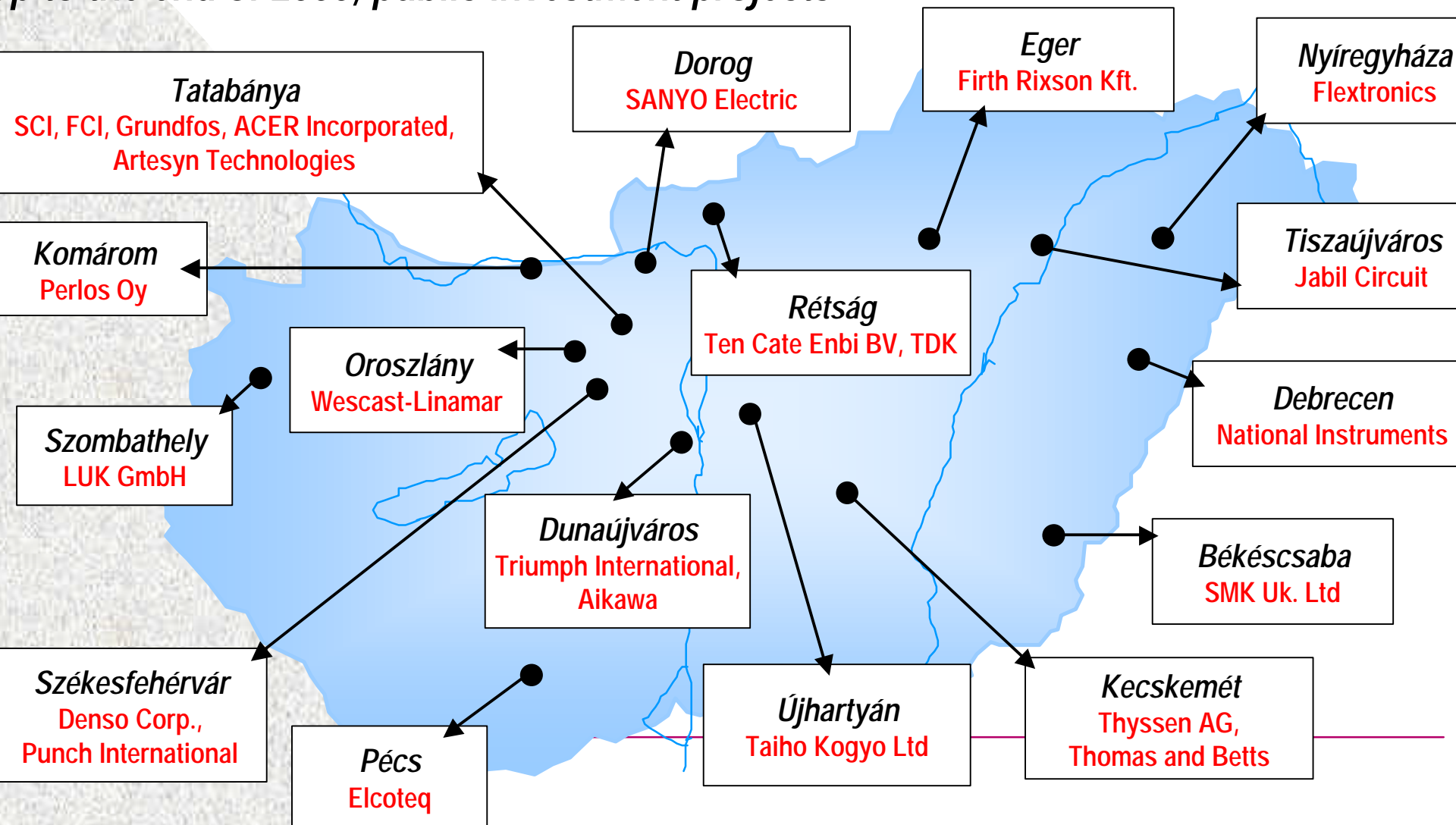
# Existing and Planned Motorways



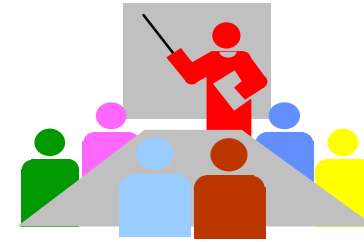
# Foreign Direct Investments in Industrial Parks with TDH's Involvement

Total: USD 888 million

Up to the end of 2000, public investment projects



# Universities and Colleges in Hungary



YEAR	NUMBER OF STUDENTS IN TECHNICAL UNIVERSITIES AND COLLEGES
1994/95	34,736
1995/96	41,267
1996/97	48,039
1997/98	55,395
1998/99	64,441
1999/00	63,037
2000/01	66,209

*Source: Hungarian Central Statistical Office*

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# A Businessland in Europe's Heartland

**Area: 92.000 km<sup>2</sup>**

**Population: 10.2 million**

**Easy access to:**

**EU:**

**Association Agreement  
accession in 2004**

**EFTA:**

**free trade agreement**

**CEFTA:**

**free trade agreement**

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